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June 16, 2008

AGENDA ITEM 9a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Third-Party Administrator Update
- II. PROGRAM:** Supplemental Income Plans
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

CitiStreet, a jointly owned company by State Street Bank and Citigroup, is the third-party administrator (TPA) for the CalPERS Supplemental Income Plans (SIP). As the TPA, CitiStreet plays a major part in the daily administration of the SIP, as their services include:

- maintaining all participant level records, which include account balances, demographic data, investment options, and investment returns;
- communicating to the 67,863 SIP participants via statements, custom websites, and a call center;
- processing all participant enrollments and employer reporting of employee contributions with over 640 agencies on a bi-weekly basis;
- providing employer onsite participant services and presentations for the 457 Plan throughout the State of California; and
- marketing the 457 Plan to local public agencies to add employers and participants.

Under a separate contract, State Street Bank provides custodial and investment management services for the SIP. Both CitiStreet and State Street Bank were selected for these services through a Request for Proposal reported to the Investment Committee on June 19, 2006.

On May 2, 2008, CitiStreet announced that it was being purchased by ING. The sale is expected to close, pending closing conditions, by the end of the third quarter of this year. ING, headquartered in the Netherlands, is a large global

financial services company focusing on insurance and retirement services with an existing third-party administrator service. ING's is a large provider of retirement services in the US. Their business line is in the small- and mid-sized employer markets. ING reports that it purchased CitiStreet as a complement providing mid- and large-sized employer market presence.

Staff will work to protect and serve our local agencies and participants during this change in ownership by maintaining, or improving, customer service. This is especially important in light of the upcoming enhancements to the fund line-up scheduled for fall 2008.

While CalPERS' contract with CitiStreet allows for the rights and obligations under the agreement to be assigned, in such case, CalPERS' prior written consent is required. CalPERS received a May 14, 2008 letter from Sandy McCarthy, CitiStreet's President, confirming CitiStreet's commitment to administer the CalPERS SIP with the same experienced service team. (Attachment 1) Staff intends to conduct further due diligence and contract discussions with CitiStreet and ING. The CalPERS General Pension Consultant, Wilshire Associates, will also be part of this process. Prior to entering into a contract amendment, staff wishes to ensure that service levels to our participants and beneficiaries will remain intact.

In the past, CalPERS' 457 Plan has directly competed with ING for new agencies and participants. In addition, there are several local public agencies where the agencies have selected both ING and CalPERS to provide 457 Plan services for their employees. This situation will need to be addressed as part of the negotiations and prior to CalPERS' consent to assign the rights and obligations under the existing agreement to ING.

Staff will continue its discussions with CitiStreet and ING to assess assigning the CitiStreet contract to ING. With the Legal Office's assistance, negotiations will focus on:

- retaining all the existing contract's terms and conditions,
- maintaining the same (or greater) level of service for employers and participants,
- addressing any potential conflicts, and
- obtaining ING's commitment to provide resources to complete the 2008 fund transition.

Staff intends to return to the Investment Committee in August to either approve a contract amendment or to recommend other options.

V. STRATEGIC PLAN:

This agenda's initiatives address multiple CalPERS Strategic Plan Goals including:

- Goal (VI) to Administer pension benefit services in a customer oriented and cost effective manner and
- Goal (VII) to Enable and educate members and employers to make informed decisions leading to a predictable and secure retirement futures.

VI. RESULTS/COSTS:

There are no additional costs associated with this item.

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Supplemental Income Plans

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